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Approved For Release 2006/03/03 : CIA-RDP84B00049R000400680022-5

Central Intelligence Agency



Washington, D.C. 20505

22 November 1982

Peru: Political and Economic Prospects

25X1 President Belaunde's creditable record in key policy areas--as well as his cordial relations with and skillful cultivation of the armed forces--in the two years since civilian rule was restored have given him a better than even chance of remaining in office over the next 12 to 18 months. The military will nevertheless remain the most significant potential threat to democratic rule. ☐

In the area of inter-party and intra-party politics, Belaunde's successful performance stands in notable contrast to that of his first administration (1963-68) and gives him a political advantage over the near term. Belaunde does, however, face a serious domestic challenge from the escalating violence caused primarily by the terrorist group Sendero Luminoso. This group presently lacks any realistic potential to overthrow the government, but it is growing and can be expected to undertake increasingly sophisticated operations. While it does not appear likely at this time, a continued ineffective civilian police response to terrorism raises the spectre of military intervention. ☐ 25X1

25X1 Belaunde can probably cope with Peru's serious economic problems--high inflation, high unemployment, declining GDP--over the next 15 months. The administration's talented economic team has made significant progress in rebuilding a market economy in the face of a worldwide recession. While stringent IMF-mandated austerity entails political risks, Belaunde has been able to contain opposition to date. In the long run, recovery is more difficult to forecast, because it is heavily dependent on an international economic upswing. ☐

25X1 The President's judicious, low key management of foreign affairs has enhanced his domestic standing in general and, more important, has had a favorable impact on his relations with the armed forces. Belaunde has maneuvered deftly through two potentially serious incidents--a border conflict with Ecuador in 1981 and the Falklands war this year. Recent unconfirmed reports of a new Ecuadorean border incursion, however, could jeopardize Belaunde's goal of a noncontroversial foreign policy by arousing the nationalistic armed forces. ☐

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